

Earnings season the next catalyst

JANUARY.08. 2024

Summary

Q4 low expectations and growth recovery

A positive Q4 earnings season is coming with low expectations and a likely consecutive US and EU recovery. Even as banks initially lag. Q3 saw end of US 'earnings recession' and was 'trough' in Europe. Tech to keep leading for now, with focus on outlook for cyclicals. Q4 focus on AI spend, margin recovery, overseas lag, and punishment of misses. 2024 is set for an idiosyncratic, low-quality, but decent profits recovery. [See Page 4](#)

Reality check to start the year

A nervous start to year for stocks and bonds, falling after record 9-week gains. Less-dovish Fed minutes, payrolls, and EU inflation gave a reality check, as look to US inflation and Q4 earnings start. Oil and container rates rose on mid-east tensions, and BTC ahead of the SEC ETF decision. TSLA deliveries beat. MBL to JD.L plunged on weaker guidance. See our 2024 Outlook [HERE](#) and twitter [@laidler_ben](#). [See Page 2](#)

Four ways the 2024 rally may be different

We see a smaller [S&P 500 rally](#) than last's 26% year, that is likely to be back-ended, and with lagging cyclicals and international markets now leading versus the US and big-tech. [See Page 2](#)

Chances of going from zero-to-hero

Picking rebounds [popular but tough](#). Momentum is a powerful strategy, and many assets stay down. But low expectations and valuation favour Yen, VIX, Renewables, Healthcare. [See Page 2](#)

Summarising our positive 2024 view

We see a [positive but different](#) year. Lower global inflation to drive interest rate cuts and a return to double-digit earnings growth. The style rotation is the biggest call of year. [See Page 2](#)

Recapping 2023's strong performance

Global stocks confounded sceptics, surging 20%, driven by crypto assets and big-tech. But this concentration tough for investors. [See Page 2](#)

Bitcoin hits \$45,000 ahead of spot ETF decision

BTC built on its 155% asset-class leading 2023 rally as nears the key Jan. 10 SEC spot Bitcoin ETF deadline. Approval could boost investor access to the asset class and comes ahead of April's 'halving'. GBTC's NAV discount narrowed to near zero. Whilst MSTR bought \$615m more BTC. See latest [Weekly Crypto Roundup](#). [See Page 3](#)

Oil bucks continued commodity slump

Commodities continued their 2023 fall, as the US dollar strengthened, and China demand concerns extended. Brent crude outperformed as rising mid-east tensions offset the 2nd largest ever US inventory build. Natgas rose on forecast for a cold weather return. US shale consolidation continued with APE \$4bn buy of CPE. [See Page 3](#)

The week ahead: Q4 earnings, inflation, BTC

1) JPM start global Q4 earnings (Fri) with low but improving +5% and -4% forecasts for S&P 500 and Stoxx 600. 2) US Dec. inflation to inch lower from 3.1% (Thu). 3) Deadline for SEC to decide on a spot BTC ETF (Wed). 4) Las Vegas Consumer Electronics Show (Tue) and key Taiwan presidential election (Sun. 13th). [See Page 3](#)

Our key views: Outlook for a different 2024

See a stronger but very different 2024. Lower inflation and coming interest rate cuts as growth slows, and the earnings outlook idiosyncratically accelerates. Will drive a investor rotation from 2023 US and big tech winners to rate sensitive losers from Europe to real estate. [See Page 5](#)

Top Index Performance

	1 Week	1 Month	YTD
DJ30	-0.59%	3.36%	-0.59%
SPX500	-1.52%	2.02%	-1.52%
NASDAQ	-3.25%	0.83%	-3.25%
UK100	-0.56%	1.79%	-0.56%
GER40	-0.94%	-0.98%	-0.94%
JPN225	-0.26%	3.31%	-0.26%
HKG50	-3.00%	1.23%	-3.00%

*Data accurate as of 08/01/2024

Market Views

Reality check to start the year

- It was a nervous start to year for stocks, falling after a record nine-week gains. Less-dovish Fed minutes, payrolls, and EU inflation gave the reality check, as look to US inflation and Q4 earnings start. Oil and container rates boosted by middle-east tensions, and BTC volatile ahead of SEC ETF decision. TSLA deliveries beat, whilst MBLV to JD.L plunged on weaker guidance. See 2024 Outlook [HERE](#) . See [Page 6](#) for resources and videos.

Four ways the 2024 rally may be different

- We see a positive but different year for markets. 1) [Returns will likely be lower](#) than 2023. With its 26% S&P 500 rally double average, valuations already full, and some returns pulled forward. 2) We may see back-ended 2024 returns, as markets digest the recent rally, face reality-check risks, and wait for validation from mid-year rate cuts.
- 3) We see a big change in market leadership, rotating from big tech to the unloved cyclical and assets most sensitive to rate cuts. 4) Giving room for Europe to emerging markets to do better vs the tech-led US juggernaut. [See Page 2](#)

Chances of going from hero-to-zero

- We see [further rotation](#) from defensive growth outperformers of 2023, like big-tech and US. Toward the cyclical assets that underperformed and are weighted in rest of the world. Like financials, real estate, industrials, small caps. They are most sensitive to an economic soft landing and rate cuts. And from low expectations and valuations after multi-year underperformance.

- A little reallocation can go far given the super-sized nature of US and tech assets. A step further, we look at the worst performers of last year, for 'zero-to-hero' rebound opportunities, like the Yen, VIX volatility, renewables and healthcare. [See Page 2](#)

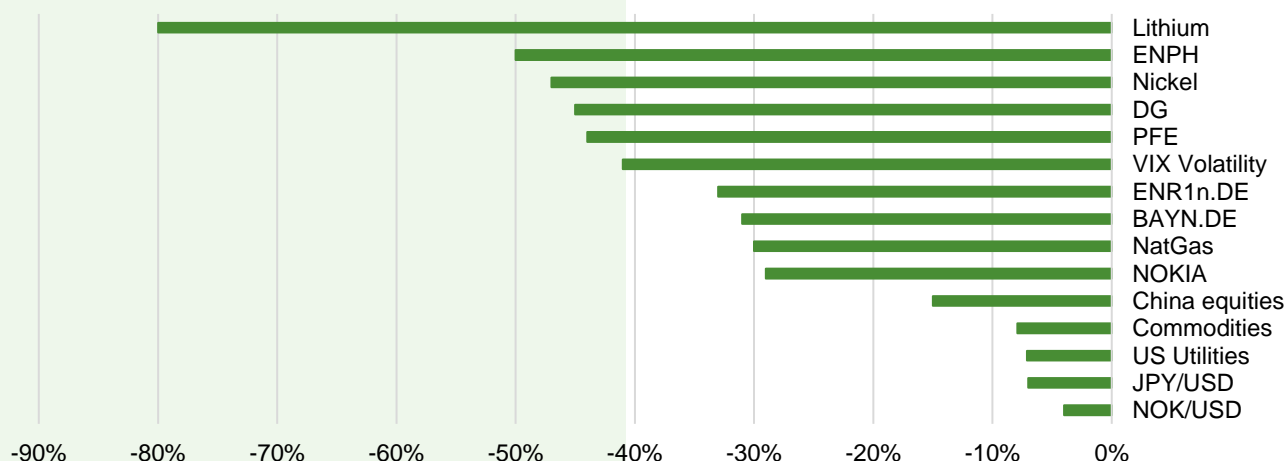
Summarising our positive 2024 view

- We see a [positive but different](#) year for markets. Lower global inflation is set to drive interest rate cuts and return to double-digit earnings growth. But 2024's rally will be smaller, back-ended, and with different leadership than last year.
- The sector, country, and style rotation from US big-tech to last year's cyclical and overseas laggards is probably the biggest call. Stocks, crypto, and bonds look set to lead returns. Whilst cash, the US Dollar, and Commodities may be the relative disappointments. [See Page 2](#)

Recapping 2023's strong performance

- Global stocks confounded the skeptics last year and surged 20%. This was driven by sharp recoveries in crypto assets and big-tech shares. As inflation fell back, with higher interest rates, but recessions were avoided. Whilst commodities were the big asset class loser as oil fell, after leading in 2022.
- But it was a tough year in many ways, with stock market returns heavily concentrated in the US and the 'magnificent 7' big tech stocks. Many investors remained cautious markets for too long, contributing to the fourth quarter 'catch up' rally. Whilst Chinese shares plunged again and the UK's FTSE 100 only flatlined. [See Page 2](#)

Select worst performing major stocks and assets of 2023 (%)



Market Views

BTC hits \$45,000 ahead of key ETF decision week

- BTC followed up its 155% asset-class leading gain in 2023 with further volatile gains in the first week of the new year, whilst MATIC and LINK were the crypto laggards.
- This was ahead of the long-anticipated Jan. 10th US SEC decision deadline on a spot BTC ETF's. GBTC's NAV discount is now single digits. ETF approval is seen as boosting investor access to the asset class and comes ahead of the April 'halving' date, the other major coming catalyst.
- Other news saw MSTR add a \$615 million BTC to its holdings. See latest [Weekly Crypto Roundup](#).

Oil higher as commodity weakness resumes

- Commodities started 2024 on the back-foot, as the US dollar firmed, and doubts remained on Chinese demand. This comes after commodities was the worst performing asset class of last year.
- Brent crude bucked the commodity downtrend, firming as rising middle east and red sea shipping tensions took centre stage. Offsetting the second highest rise in US fuel inventories ever. Natgas prices also gained after recent warm-weather induced weakness, on expectation of colder times to come. US shale consolidation continued with APA's \$4.5 billion deal for CPE.
- China-centric metals, from copper to aluminium, saw a weak start to year with continued doubts over the country's sputtering growth recovery.

The week ahead: Q4 earnings, inflation, BTC ETF

1. Global Q4 **earnings** seasons starts Friday with JPM and big US banks. Expectations are reassuringly low, at +5% YoY for S&P 500 and -4% for Europe's Stoxx600, but likely to consecutively improve.
2. Most important number in markets is **inflation**. December US CPI to inch below last month's 3.1%, keeping door open to Fed rate cuts later in year. Whilst China deflation likely to continue, at -0.5%.
3. US SEC to decide Wednesday on much anticipated approval of a spot **Bitcoin** ETF, widely seen as significantly broadening investor access to the youngest and smallest of asset classes.
4. Las Vegas Consumer Electronics Show (**CES**) to highlight latest tech trends and gadgets. **Taiwan** prepares for Sunday's presidential election with incumbent candidate leading in a tightening race.

Our positive key views for 2024

- See a stronger 2024 performance as investors look ahead to the final <3% hard inflation yards, a slowing but not recessionary US economy, and coming mid-year interest rate cuts on both sides of the Atlantic. This is set to come alongside an idiosyncratic and broadening AI and profit margin led 10% US earnings growth acceleration.
- Early focus on defensive growth and long duration assets, from healthcare to big tech, and bonds to crypto. With coming big rotation away from the 2023 US and big tech winners to the interest rate sensitive 'losers' from Europe to real estate.

US Equity Sectors, Themes, Crypto assets

	1 Week	1 Month	YTD
IT	-3.46%	1.91%	-3.46%
Healthcare	1.62%	6.05%	1.62%
C Cyclical	-3.25%	2.07%	-3.25%
Small Caps	-3.75%	5.35%	-3.75%
Value	-0.26%	4.97%	-0.26%
Bitcoin	4.31%	-0.25%	4.31%
Ethereum	-2.80%	-0.80%	-2.80%

Fixed Income, Commodities, Currencies

	1 Week	1 Month	YTD
Commod*	-0.01%	0.79%	-0.01%
Brent Oil	2.36%	4.30%	2.36%
Gold Spot	-0.93%	1.57%	-0.93%
DXY USD	1.09%	-1.51%	1.09%
EUR/USD	-0.86%	1.67%	-0.86%
US 10Y Yld*	16.48	-18.47	16.48
VIX Vol.	7.23%	8.20%	7.23%

Source: Refinitiv, MSCI, FTSE Russell



Source: Refinitiv. * Broad Bloomberg index. * Basis points

Focus of Week: Earnings to soothe market fears

Positive Q4 earnings coming with low expectations and consecutive US and EU recovery

JP Morgan (JPM) and the big US banks unofficially kick off global fourth quarter earnings season on Friday, January 12th. It'll be more important than ever, with markets starting the year on the back-foot, and accelerating earnings standing alongside interest rate cuts as the twin pillars of our bullish 2024 outlook. We see a positive set-up with earnings expectations low and the end result to be consecutively better Q4 earnings growth on both sides of the Atlantic. Even as first-to-report banks are among the weakest results.

Third quarter saw end of US 'earnings recession' and was the 'trough' in Europe

Third quarter reports saw the decisive [end of the earnings recession](#) in the US, with profits rising 7% and over four-fifths of stocks beating analyst expectations. This gave fundamental fuel to the big fourth quarter rally, alongside the Fed's interest rate 'pivot'. Fourth quarter S&P 500 expectations are reassuringly low, with subdued <5% growth slower than last quarter and after estimate cuts near double typical levels. Whilst in more sluggish Europe third quarter profits fell 11% and were likely trough earnings. Europe's Stoxx 600 fourth quarter forecasts are for a consecutively less-bad 4% earnings fall.

Tech to keep leading for now, with focus on outlook for a cyclical and interest rate recovery

US communications, utilities, discretionary, and tech are all set to see over 10% Q4 earnings growth. Whilst healthcare, materials, energy are set for double-digit profit falls. The estimate cuts into Q4 have been led by healthcare, materials and industrials. Among those bucking the downtrend were NVIDIA, airlines, and utilities. Financials is the first to report and set for a worse than average 4% profit fall, led by banks (-20%).

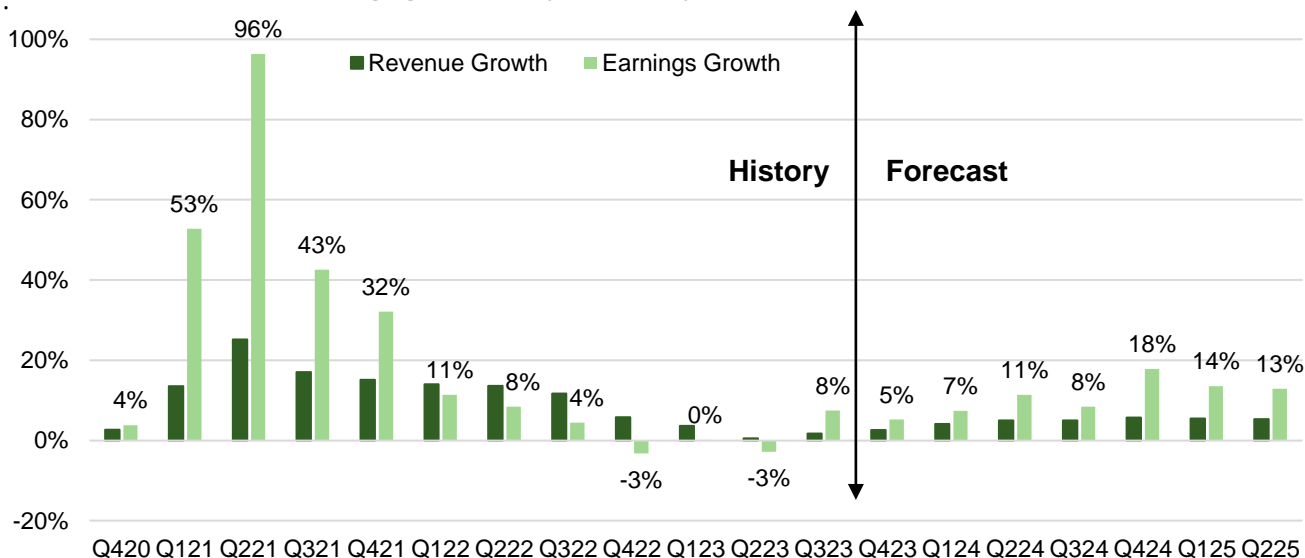
Q4 thematic focus on AI spending, profit margin recovery, reactions, and overseas earnings

Key themes will be a 1) spreading AI optimism across tech, aside from NVDA, AMD, MSFT. 2) A boost to S&P 500 profit margins from inflation declines, with consensus looking for fall to 11%. 3) Worse-than-normal reaction to forecast misses with cautious sentiment. 4) US-focused stock earnings better than overseas.

2024 is set for idiosyncratic, low-quality, but significant earnings recovery

We see a 2024 earnings recovery wrong-footing a cautious consensus expecting larger than [normal estimates cuts](#). With AI-led tech demand, lower inflation profit margin relief, and depressed base offsetting slowing GDP growth. We see double-digit growth healthily broadening from tech. With forecasts for return to 10% growth in US for Q2 season. and a more levered recovery to 30% by the end of this year in Europe.

S&P 500 revenue and earnings growth (% year-over-year)



Key Views

The eToro Market Strategy View

Global Overview We see a stronger but very different 2024 rally than in 2023. With lower inflation and coming interest rate cuts as growth slows, and the earnings outlook idiosyncratically accelerates. This should drive an investor rotation from 2023 US and big tech winners to interest rate sensitive losers from Europe to real estate. See our [2024 Outlook HERE](#).

Traffic lights* Equity Market Outlook

United States	World's largest equity market (60% of total) seeing slowing but resilient GDP and earnings growth. Valuations led the rebound this year and supported by high company profitability and peaked bond yields. Focus on cash-flows defensives, like healthcare and high dividend. And Big-tech supported by defensive growth, cost cutting, and AI. See rotation from 2023 big-tech leadership to cyclicals most sensitive to economic soft landing and interest rate cuts.
Europe & UK	First into the economic slowdown last year and set to be first to recover this year. With potential dramatic earnings swing from -10% to +30% growth given greater cyclical stock index make up, against backdrop of already heavily discounted valuations. ECB to cut up to four times starting mid-year, with near recession and 3% inflation.
Emerging Markets (EM)	China, Korea, Taiwan dominate EM (60% wt.), and more tech-centric than US. Positive China as economy stabilises, supports property sector, eases tech regulation pressure. Valuations 40% cheaper than US and markets out of favour. Recovery helps global sectors from luxury to materials. EM needs weaker USD and peak US rates catalyst.
Other International (JP, AUS, CN)	Canada and Australia have benefitted from strong equity market weight in commodities and financials, as global growth resilient and bond yields risen. Now could be becoming headwinds. Japanese equities among worlds cheapest with own and China-proxy growth and governance improving but threats of tighter monetary policy and stronger Yen.

Traffic lights* Equity Sector & Themes Outlook

Tech	'Tech' sectors of IT, communications, consumer discretionary (Amazon, Tesla), dominate US and China. Expect better performance as 1) lower bond yields take pressure off valuations and 2) high profit margins and fortress balance sheets make defensive to recession risks. 2) Cost cuts and AI add to growth. 'Disruptive' tech much more vulnerable.
Defensives	More attractive as recession risks rising and bond yields have peaked. Consumer staples, utilities, (some) real estate attractive with defensive cash flows, less exposed to rising economic growth risks, and with robust dividends. Healthcare is the most attractive, with cheaper valuations, more growth, some rising cost protection.
Cyclicals	High risk cyclical sectors - like discretionary (autos, apparel, restaurants), industrials, energy, materials, and small caps - have cheap valuations, many with depressed earnings, and have been out-of-favour for many years. But they are significantly exposed to rising recession risks. Some especially cheap (energy) or see growth recovery (airlines).
Financials	Current stresses likely individual not systemic. Post GFC reforms boosted capital and size/speed of authority's response. But outlook for 1) less GDP growth, 2) lower bond yields and interest rates, and 3) valuation sensitivity after recent surprises, worsens outlook. Insurance and Diversifieds (like Berkshire Hathaway) more defensive.
Themes	Dividends and buyback themes attractive with resilient cash flows, rising pay-outs, and investor search for defensives. Power of compounding dividends under-estimated, at up to 1/2 of total long-term return. Small caps pressured by rising recession risk. Secular growth of Renewables and Disruptive Tech investment themes.

Traffic lights* Other Assets

Currencies	USD 'wrecking ball' driven by Fed interest rates and 'safer-haven' bid. DM currencies hurt by still low interest rates and struggling growth. Strong USD hurt EM, commodities, US foreign earners like tech. But helps big EU and Japan exporters. See a stabler USD outlook in 2023 as near top of the Fed cycle and global risks remain high.
Fixed Income	US 10-yr bond yields supported around 4% by higher Fed rate hike and stickier inflation expectations. Set to ease as recession risks slowly build and inflation expectations gradually fall. US has widespread to other market bond yields, and headwinds of high debt, poor demographics, and low productivity. 5% bill yields an attractive cash alternative.
Commodities	Strong USD and rising recession fears hit commodities. But still above average prices helped by GDP growth, 'green' industry demand, supply under-investment, recovering China, Russia supply crisis. Oil helped by slow return of OPEC+. But commodities not to repeat their 2021 and 2022 performance leadership. Gold benefits from safer haven demand.
Crypto	Potential 'surprise' after dramatic and early asset class sell-off and later specific risk events from Luna to FTX. See long term asset class development with small size \$1 trillion, correlations low, regulation growing, development/catalysts continuing - Ethereum merge to proof-of-stake and coming BTC halving.

*Methodology: Our guide to where we see better risk-adjusted outlook. Not investment advice.

Positive	Overall positive view and expected to outperform the asset class on a 12-month view.
Neutral	Overall neutral view, with elements of strength and weakness on a 12-month view.
Cautious	Overall cautious view, and expected to underperform the asset class on a 12-month view.

Analyst Team

Global Analyst Team

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Research Library

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Find our twice monthly global markets presentation on the multi-asset investment outlook.

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